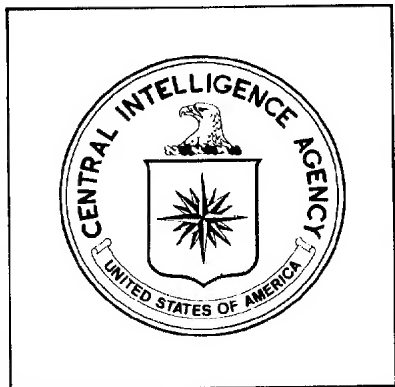


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*The World Sugar Market:
Recent Trends and Short-Term Prospects*

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ER RP 73-14
August 1973

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**THE WORLD SUGAR MARKET: RECENT TRENDS
AND SHORT-TERM PROSPECTS**

Summary

The world sugar market continued to tighten during 1972-73. Although high prices helped to slow the growth of demand, sluggish output gains kept production below consumption for the third consecutive year, and world stocks dropped to abnormally low levels. Production has been retarded by drought damage to the crops in Cuba, the USSR, India, and several other Asian countries. In the rest of the world, however, production generally increased at an accelerated pace.

Setbacks to production markedly reduced sugar supplies in the Communist area's preferential market, supplied by domestic producers and by Cuba, and in Asia. A consequent sharp curtailment of Communist sales of Cuban sugar on the free market, which normally account for 40% of the free market total, also disrupted supplies in the free market, where about one-half of the sugar moving in international trade is sold. Free market strains were intensified by the switch of the USSR and the People's Republic of China from large sellers to large buyers and by greater Asian purchases. Output gains and stock drawdowns in the rest of the world, however, combined to more than offset the loss of Communist area supplies in the free market and to maintain ample supplies in the US and UK preferential markets.

Free market strains have exerted strong pressures on sugar prices. After averaging 4.5 cents per pound in 1971, the free market price rose to an average of 7.7 cents in 1972, and has averaged about 9.5 cents so far this year. High free market prices have put some pressure on US and Communist area preferential prices. To assure the continuing adequacy of supplies, to provide equitable treatment for suppliers, and for other reasons, the US preferential price rose this year to a record 9.5 cents per pound, while the average price the Communist

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countries pay for Cuban sugar was increased to 10.5 cents. The UK preferential price was not visibly affected, however.

Although the world supply situation will remain tight over the next couple of years, accelerated output gains in a few exporting countries will help to ease pressure a little in the world market. Supplies in the US preferential market probably will remain ample, and increased Cuban and Soviet output should substantially improve supplies in the Communist area market. Free market strains are likely to ease and prices to edge downward slightly, thus relieving some of the pressure on the US preferential price. The free market will benefit from a termination of Soviet and possibly Chinese purchases and a substantial recovery of sales by Cuba and probably the other Communist countries. Output growth in many exporting countries may slow a little, however, partly because of uncertainties over new sales quotas when the 1968 International Sugar Agreement (ISA) is renegotiated this year and over the scheduled 1 January 1975 dissolution of the UK preferential market. This slowdown, together with continuing strong demand by Asian and African countries, seems likely to help keep the free market price well above the pre-1972 level.

Discussion

Background

1. After six years of abundant supplies and low prices, the world sugar market tightened in the 1971 crop year,* when drought and other problems cut Cuban production about 30% below the record 1970 crop. Cuba normally is the source of 40% of the supplies reaching the world free market, where about one-half of the sugar moving in international trade is marketed. Although the Cuban decline was partly offset by output gains in Latin America, world production fell about 2%, slipping below consumption, and world stocks dropped about 10% to 19 million metric tons. The free market price edged upward during 1971 from the 3.8 cents per pound average of 1970.

* Sugar crop years referred to in this publication end 31 August of the year indicated.

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At the close of the year, it soared to 7.5 cents when the USSR, which normally reexports about one million tons of Cuban sugar annually, bought heavily in the free market for 1972 delivery.*

Market Trends in 1972-73

Supply

2. World sugar supplies have registered only limited improvement since 1971. Drought in Asia and the Communist countries held the 1972-73 average gain well below the 4% annual average of the last two decades. World production/stayed about the same in 1972 and probably will rise to about 76 million tons in the 1973 crop year -- only 5% above the 1970 peak (see Table 1).

3. The Communist countries were hardest hit by bad weather. Total output in the Communist preferential sugar market area** dropped by 10% in 1972 and is expected to recover only partly this year. Output in the USSR and Eastern Europe, which has slipped since 1969 mainly because of reduced Soviet yields, dropped sharply in 1972 because of the severe drought in the USSR. Slightly expanded plantings and better weather in the area will boost 1973 production to a little above that of 1971. Output in the People's Republic of China (PRC), however, has maintained a slow but steady growth during the two-year period.

4. The main production drop in the Communist area resulted from drought damage to the Cuban crop, which slumped in 1972 to 4.4 million tons, the smallest since 1963. Even with the end of the drought, the 1973 Cuban harvest (completed on 13 June) reached only about 5.2 million tons, nearly 12% below that of 1971. Cuba consequently has sharply cut both direct free market sales and deliveries to other Communist countries, which normally

* For details on market developments in late 1971 and early 1972, see ER IM 72-7, Soviet Sugar Purchases and the World Market Situation, January 1972, CONFIDENTIAL.

** The USSR, the East European Communist countries, and the People's Republic of China, which are supplied by domestic producers and by Cuba.

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Table 1
World Sugar Production¹

	Million Metric Tons, Raw Basis				
	1969	1970	1971	1972	1973 ²
Total	67.4	72.3	71.1	71.3	75.9
Communist area ³	20.1	22.8	20.3	18.2	20.1
Of which:					
USSR	9.9	8.7	9.0	8.0	8.6
Cuba	4.5	8.5	5.9	4.4	5.2
Asia	9.2	10.8	10.6	9.5	11.2
Of which:					
India	4.0	4.7	4.2	3.4	4.3
Philippine Islands	1.7	2.0	2.1	1.9	2.3
Latin America	13.1	13.5	15.2	15.6	16.9
Of which:					
Brazil	4.1	4.3	5.4	5.6	6.2
Western Europe	11.3	12.0	11.6	13.6	12.6
Of which:					
European Community	8.6	9.2	8.9	10.4	9.5
Africa	4.5	4.9	4.7	5.5	5.8
Of which:					
Union of South Africa	1.5	1.7	1.4	2.0	2.0
North America	5.9	5.7	5.7	5.7	6.1
Oceania	3.3	2.6	3.0	3.2	3.2
Of which:					
Australia	2.8	2.3	2.6	2.9	2.9

1. Crop years ending 31 August of the year indicated. Because the crop years vary among countries, in some cases substantially, the entire output of each country is credited to the September-August year in which harvesting began.

2. Estimated.

3. Cuba, the USSR, the East European Communist countries, and the People's Republic of China. The small Asian Communist countries are included under "Asia."

refine about one-half of the sugar they buy from Cuba for resale on the free market. The declines in Cuban deliveries, added to Soviet production shortfalls, reduced Communist area sugar sales in the free market by more than 50% in 1972, and there has been little recovery in 1973. The USSR and the PRC not only suspended free market sales in both years but became large-scale buyers.

5. The production setback in Asia had little impact on sugar supplies on the world market because

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the countries most affected by drought normally are only small exporters. Asia still is a net importing region, although acreage and output have increased rapidly in recent years. Asian production dropped 10% in 1972 because of drought damage to the Indian crop -- and to a lesser extent to the Pakistani and Philippine crops -- but has fully recovered this year.

6. In the rest of the world, sugar production rose considerably in the two-year period. Annual increases substantially exceeded the average of the 1960s. Although part of the expansion reflected efforts by some countries to boost domestic supplies, about one-half resulted from increased operations undertaken in a few exporting countries largely to take advantage of high free market prices. Production in Latin America accelerated sharply as Brazil, and to a lesser extent Argentina and Mexico, slightly increased acreage and expanded harvesting. A rapid rise in African output was primarily the result of increased plantings and improved yields in the Union of South Africa. In Western Europe, production jumped substantially in 1972 as plantings and yields were increased in France, West Germany, and Spain, but bad weather this year has limited the two-year growth. Part of the West European gain reflects efforts by producers in the European Community (EC) to move toward self-sufficiency in the enlarged Community. North American output rose significantly, largely because of greater acreage allotments and increased yields in the United States.

7. Production gains have sufficed to maintain ample sugar supplies in the US and UK preferential markets, which account for about one-third of the sugar moving in international trade.* Together with stock drawdowns, these gains also have permitted free market sales to expand enough to more than offset the decline in Communist area shipments. Brazil, the Union of South Africa, and Australia -- which benefited from the automatic suspension of ISA sales quotas when the free market price exceeded

* The US market is supplied mainly by US, Latin American, and Philippine producers and the UK market mainly by UK, Australian, and Caribbean Commonwealth producers.

5.25 cents per pound -- and the EC (chiefly France) accounted for most of the sales gain in 1972, as is shown on a calendar year basis in the following tabulation:

	Million Metric Tons, Raw Basis		
	1970	1971	1972
Total free market sales	8.9	9.5	11.1
Communist area	4.2	3.9	2.1
Of which:			
Cuba	2.1	2.2	1.8
USSR	1.1	1.1	Negl.
Brazil	0.5	0.6	2.0
Australia	1.1	1.2	1.7
Union of South Africa	0.6	0.7	1.1
European Community	0.7	0.8	1.4
Other exporting countries	1.8	2.3	2.8

Demand

8. The annual increase in world sugar demand, which has averaged about 4% in the last couple of decades, slipped to an average annual rate of 2.0% during 1972-73 because of sharply slackened growth in Asia and the Communist area, which together account for about 40% of total demand. The slowdowns in these areas reflect mainly the countries' inability or unwillingness to compensate fully for production shortfalls through expanded purchases in the free market. Although the USSR and China bought a total of about one million tons each year and Asian purchases also increased in 1972, the growth of consumption in the Communist area and in Asia slowed (see Table 2). Because of the thinness of the free market, the Communist and Asian purchases exerted greatly increased pressure on free market supplies.

Table 2
World Sugar Consumption¹

	Million Metric Tons, Raw Basis		
	1971	1972	1973 ²
Total	73.6	74.4	76.6
Communist area	17.1	16.9	17.5
Asia	14.8	14.9	14.8
Western Europe	14.8	14.7	15.3
North America	11.6	11.7	11.8
Latin America	9.9	10.6	11.3
Africa	4.4	4.6	4.9
Oceania	1.0	1.0	1.0

1. Crop years.
2. Estimated.

9. Elsewhere, growth of sugar demand generally matched or exceeded that of the 1960s. Rising incomes and rapid population growth led to a continued rapid rise in demand in Latin America and Africa. In North America, Western Europe, and Oceania, where per capita consumption has tended to level off in recent years, demand increased in 1972-73 at about the same rates as population. This demand growth has not significantly augmented pressures in the free market, because these areas, except for Africa and the smaller European countries, do not depend on the free market for substantial shares of their sugar supplies.

Stocks and Prices

10. Despite slackened growth, world consumption remained well above production during 1972-73. On the basis of production data adjusted for each country to the crop year ending 31 August, the two-year gap probably will total about 3.0 million tons, cutting world stocks to 16.0 million tons by 31 August 1973 -- 16% below the level of August 1971 (see Table 3). The expected decline of world stocks to a level equal to about 21% of consumption (see Figure 1) will be almost as low as that which triggered the 1963 sugar boom. Although stocks slipped in most world regions, the main reductions occurred

Table 3
Estimated World Sugar Stocks as of
31 August

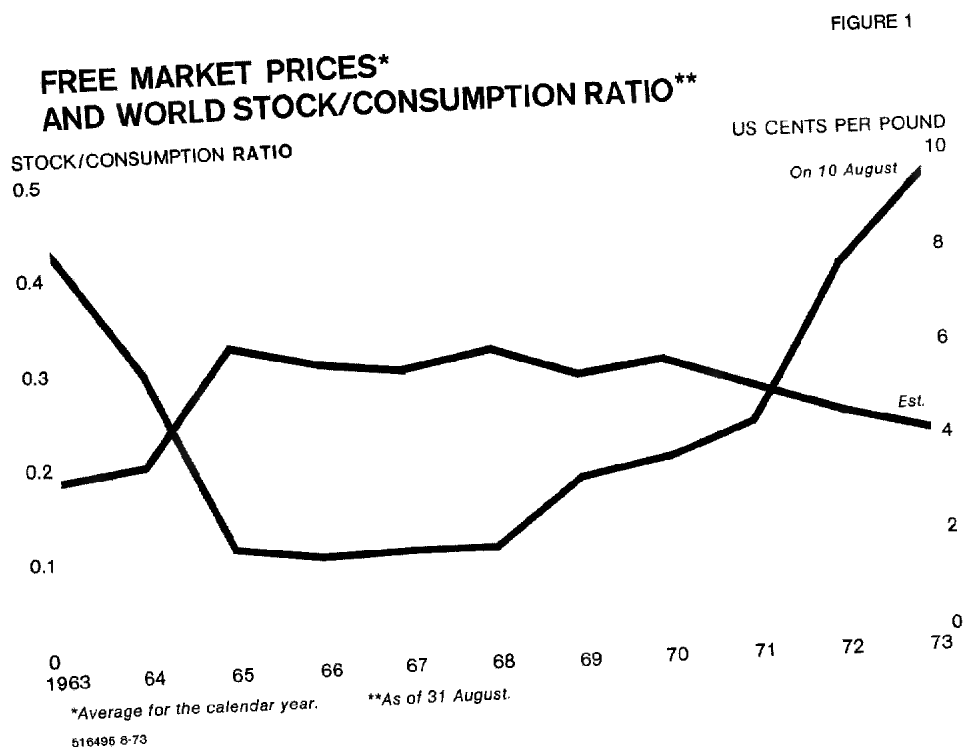
	Million Metric Tons, Raw Basis		
	1971	1972	1973 ¹
Adjusted production ²	71.2	72.7	75.3
Consumption	73.6	74.4	76.6
<i>Stocks</i>	<i>19.0</i>	<i>17.3</i>	<i>16.0</i>
Communist area	3.4	2.1	2.3
Asia	4.4	3.0	3.2
Latin America	4.5	4.5	3.6
Western Europe	2.9	3.7	3.4
North America	1.9	1.8	1.8
Africa	1.2	1.3	1.1
Oceania	0.7	0.9	0.6

1. Estimated.

2. Production for all countries in the 12-month period ending 31 August of the year indicated.

in the Communist areas, Asia, and Latin America. The decline in Latin American stocks reflects mainly the sharp upswing in Brazilian sales on the free market.

11. Strains on free market supplies -- as reflected in the dislocation of supply patterns and stock drawdowns -- have exerted growing pressure on prices. With the decline in net sales by the Communist countries, free market prices were pushed up to an average of 7.7 cents per pound in 1972 compared with 4.5 cents the year before (see Figure 2). The spot price jumped to 9.6 cents at the year's end, when Soviet and Chinese purchase contracts for 1973 set off a new speculative flurry. After hovering at about 9 cents in the first few months of 1973, the spot price climbed to 10.8 cents near the end of May as new Chinese purchases for 1973 delivery were announced and rumors circulated -- thus far unsubstantiated -- of both Soviet and Chinese purchase contracts for 1974-75 delivery.



Since then the price has fluctuated between 9 cents and 10.25 cents as rumors have ebbed and flowed.*

12. High free market prices so far have not caused significant diversion of sugar from the principal world preferential markets. They have contributed, however, to increases in some preferential prices that are almost as large as those of the 1963 sugar boom. After remaining at about

* Not all free market sales are made at the current free market price. Under Article 30 of the International Sugar Agreement, which is intended to partly protect importing countries from temporary price rises, signatory exporting countries are obligated to charge a maximum of 6.5 cents per pound (at the 1968 US dollar parity) for certain shares of sales to their established trading partners.

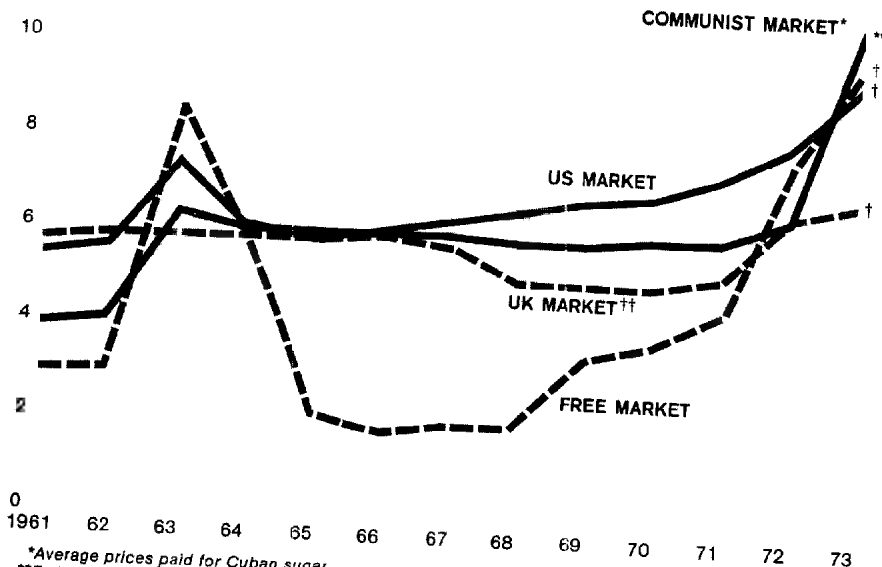
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SUGAR PRICES IN PRINCIPAL WORLD MARKETS

FIGURE 2

ANNUAL AVERAGE IN US CENTS PER POUND
F.O.B. CARRIBEAN PORTS

12



*Average prices paid for Cuban sugar.

**Estimated

†On 10 August.

††Negotiated prices under Commonwealth Sugar Agreement. These prices include some freight and insurance. Since 1964, they also include special payments to less developed Commonwealth producers. Lower prices in 1968-70 primarily reflect the sterling devaluation in 1967.

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6 cents per pound during most of the 1960s, the average price paid Cuba by the other Communist countries jumped to 10.5 cents for 1973 deliveries. The US preferential price also has risen at an accelerated rate since 1971 and reached 9.5 cents this year. Prices in both the United States and the Communist area have been influenced in varying degree by the desire to ensure the continuing adequacy of supplies and to provide equitable treatment for suppliers. US prices also have been affected by rising US inflationary pressures. In-

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creases in the UK preferential price have not been much influenced by free market prices, however. An increase in 1972 from 5.2 cents to 6.5 cents was negotiated in 1971, before the major rise in free market price, and the 1973 rise to about 7 cents reflects appreciation of sterling against the dollar.

Short-Term Outlook

13. The world supply situation probably will remain fairly tight, but market pressures are likely to ease slightly over the next couple of years. With good weather, production likely will rise a little more rapidly than in 1972-73, with total output reaching about 80 million tons by 1975. Above-normal free market prices probably will help to hold demand growth near the relatively slow rate of the past two years, so that production should about match consumption by 1975. Nevertheless, stocks could dip slightly, and the rise in demand probably will reduce stocks to a level equal to about 19% of consumption, equal to the 1963 record low.

14. About half the increase in world output probably will originate in the Communist area because increased yields in Cuba and slightly expanded acreage in the remaining countries seem likely to boost production to about 22 million tons in the 1975 crop year. This will still be a little below the 1970 record. Cuba, having recently forsworn major new sugar drives, will not try to equal its 1970 record output. With accelerating efforts to renew plantings, mechanize harvesting, and improve transport of cane to the mills, however, Cuba should be able to achieve by 1975 a harvest of about 6 million to 6.5 million tons.

15. Sugar production in the rest of the world probably will gain through 1975, but growth likely will be a little slower than in the past two years. In some countries, strong demand for crops that compete with sugar for land will restrict the acreage that can be devoted to sugar crops. Greatly increasing needs for protein crops in such countries as India, for example, probably will prevent Asian sugar output from recovering the rapid growth rates of the 1960s.

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16. Uncertainty about international marketing arrangements will tend to restrict output growth through 1975 in some sugar exporting countries. Renegotiation this year of ISA free market export quotas is proving difficult. Although Brazil has stated that it will sharply boost output regardless of the outcome, most other sugar exporting countries will hesitate to undertake expanding production for export substantially. Moreover, the scheduled 1975 dissolution of the UK preferential sugar market has tended to discourage output expansion in Australia and to some extent in Caribbean Commonwealth countries, although it could accelerate production in the enlarged EC as that area strives for greater self-sufficiency.

17. The increase in demand through 1975 will originate mainly in the developing countries of Latin America, Asia, and Africa, where per capita consumption still is relatively low and population and incomes both are rising. In some less developed countries of Asia and Africa that depend on the free market, high prices may continue to restrain consumption growth somewhat, however. With improved supplies, demand growth in the Communist countries should recover, but it will continue to be slow because per capita consumption already is high except in the PRC. For the same reason, demand also will continue to grow slowly in Western Europe, North America, and Oceania. Possible outlawing of saccharin in the United States this year might raise US demand for sugar slightly, but only temporarily, because other synthetic sweeteners would quickly be available.

18. Sugar supplies should be ample in the preferential markets through 1975, and pressures probably will ease slightly in the free market. Increased output in the Communist area will permit some expansion of Cuban and perhaps East European free market sales. Moreover, the USSR and possibly the PRC will terminate free market purchases, although neither country is likely to resume free market sales at levels anywhere near those of the late 1960s. Increased availability of Brazilian sugar should compensate for any continuing shortage in Communist supplies and may enable Brazil to replace Cuba as the largest supplier. Increased free

market sales by Australia and perhaps other former UK suppliers may be expected to offset any diversion of EC sugar from the free market to the United Kingdom.

19. Although remaining subject to sharp temporary rises in response to new rumors, free market prices probably will edge slightly downward during 1974-75 but will remain well above pre-1972 levels. Thus, present external pressures on the US preferential market price will be reduced. The UK preferential price probably will remain essentially unchanged through 1974. The average paid for Cuban sugar by the other Communist countries may rise a little, however, as the rest of the East European countries adopt the price (12 cents per pound) now paid by the USSR, China, and Bulgaria.

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Major Sources:

*F.O. Licht's International Sugar Report
(SERIES)*

*Statistical Bulletin, International
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*Commodity Newsletters; Merrill Lynch,
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Services*

*USDA Foreign Agriculture Circular,
"Record World Sugar Crop Expected in 1972-73"*

*World Sugar Markets in a State of Flux
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Journal of Commerce

*USDA reports and Agricultural
Attache reports.
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countries pay for Cuban sugar was increased to 10.5 cents. The UK preferential price was not visibly affected, however.

Although the world supply situation will remain tight over the next couple of years, accelerated output gains in a few exporting countries will help to ease pressure a little in the world market. Supplies in the US preferential market probably will remain ample, and increased Cuban and Soviet output should substantially improve supplies in the Communist area market. Free market strains are likely to ease and prices to edge downward slightly, thus relieving some of the pressure on the US preferential price. The free market will benefit from a termination of Soviet and possibly Chinese purchases and a substantial recovery of sales by Cuba and probably the other Communist countries. Output growth in many exporting countries may slow a little, however, partly because of uncertainties over new sales quotas when the 1968 International Sugar Agreement (ISA) is renegotiated this year and over the scheduled 1 January 1975 dissolution of the UK preferential market. This slowdown, together with continuing strong demand by Asian and African countries, seems likely to help keep the free market price well above the pre-1972 level.

Discussion

Background

1. After six years of abundant supplies and low prices, the world sugar market tightened in the 1971 crop year,* when drought and other problems cut Cuban production about 30% below the record 1970 crop. Cuba normally is the source of 40% of the supplies reaching the world free market, where about one-half of the sugar moving in international trade is marketed. Although the Cuban decline was partly offset by output gains in Latin America, world production fell about 2%, slipping below consumption, and world stocks dropped about 10% to 19 million metric tons. The free market price edged upward during 1971 from the 3.8 cents per pound average of 1970.

* Sugar crop years referred to in this publication end 31 August of the year indicated.

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THE WORLD SUGAR MARKET: RECENT TRENDS
AND SHORT-TERM PROSPECTS

Summary

The world sugar market continued to tighten during 1972-73. Although high prices helped to slow the growth of demand, sluggish output gains kept production below consumption for the third consecutive year, and world stocks dropped to abnormally low levels. Production has been retarded by drought damage to the crops in Cuba, the USSR, India, and several other Asian countries. In the rest of the world, however, production generally increased at an accelerated pace.

Setbacks to production markedly reduced sugar supplies in the Communist area's preferential market, supplied by domestic producers and by Cuba, and in Asia. A consequent sharp curtailment of Communist sales of Cuban sugar on the free market, which normally account for 40% of the free market total, also disrupted supplies in the free market, where about one-half of the sugar moving in international trade is sold. Free market strains were intensified by the switch of the USSR and the People's Republic of China from large sellers to large buyers and by greater Asian purchases. Output gains and stock drawdowns in the rest of the world, however, combined to more than offset the loss of Communist area supplies in the free market and to maintain ample supplies in the US and UK preferential markets.

Free market strains have exerted strong pressures on sugar prices. After averaging 4.5 cents per pound in 1971, the free market price rose to an average of 7.7 cents in 1972, and has averaged about 9.5 cents so far this year. High free market prices have put some pressure on US and Communist area preferential prices. To assure the continuing adequacy of supplies, to provide equitable treatment for suppliers, and for other reasons, the US preferential price rose this year to a record 9.5 cents per pound, while the average price the Communist

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At the close of the year, it soared to 7.5 cents when the USSR, which normally reexports about one million tons of Cuban sugar annually, bought heavily in the free market for 1972 delivery.

Market Trends in 1972-73

Supply

2. World sugar supplies have registered only limited improvement since 1971. Drought in Asia and the Communist countries held the 1972-73 average gain well below the 4% annual average of the last two decades. World production/stayed about the same in 1972 and probably will rise to about 76 million tons in the 1973 crop year -- only 5% above the 1970 peak (see Table 1).

3. The Communist countries were hardest hit by bad weather. Total output in the Communist preferential sugar market area* dropped by 10% in 1972 and is expected to recover only partly this year. Output in the USSR and Eastern Europe, which has slipped since 1969 mainly because of reduced Soviet yields, dropped sharply in 1972 because of the severe drought in the USSR. Slightly expanded plantings and better weather in the area will boost 1973 production to a little above that of 1971. Output in the People's Republic of China (PRC), however, has maintained a slow but steady growth during the two-year period.

4. The main production drop in the Communist area resulted from drought damage to the Cuban crop, which slumped in 1972 to 4.4 million tons, the smallest since 1963. Even with the end of the drought, the 1973 Cuban harvest (completed on 13 June) reached only about 5.2 million tons, nearly 12% below that of 1971. Cuba consequently has sharply cut both direct free market sales and deliveries to other Communist countries, which normally

* The USSR, the East European Communist countries, and the People's Republic of China, which are supplied by domestic producers and by Cuba.

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Table 1

World Sugar Production¹

	Million Metric Tons, Raw Basis				
	1969	1970	1971	1972	1973 ²
Total	67.4	72.3	71.1	71.3	75.9
Communist area ³	20.1	22.8	20.3	18.2	20.1
Of which:					
USSR	9.9	8.7	9.0	8.0	8.6
Cuba	4.5	8.5	5.9	4.4	5.2
Asia	9.2	10.8	10.6	9.5	11.2
Of which:					
India	4.0	4.7	4.2	3.4	4.3
Philippine Islands	1.7	2.0	2.1	1.9	2.3
Latin America	13.1	13.5	15.2	15.6	16.9
Of which:					
Brazil	4.1	4.3	5.4	5.6	6.2
Western Europe	11.3	12.0	11.6	13.6	12.6
Of which:					
European Community	8.6	9.2	8.9	10.4	9.5
Africa	4.5	4.9	4.7	5.5	5.8
Of which:					
Union of South Africa	1.5	1.7	1.4	2.0	2.0
North America	5.9	5.7	5.7	5.7	6.1
Oceania	3.3	2.6	3.0	3.2	3.2
Of which:					
Australia	2.8	2.3	2.6	2.9	2.9

1. Crop years ending 31 August of the year indicated. Because the crop years vary among countries, in some cases substantially, the entire output of each country is credited to the September-August year in which harvesting began.

2. Estimated.

3. Cuba, the USSR, the East European Communist countries, and the People's Republic of China. The small Asian Communist countries are included under "Asia."

refine about one-half of the sugar they buy from Cuba for resale on the free market. The declines in Cuban deliveries, added to Soviet production shortfalls, reduced Communist area sugar sales in the free market by more than 50% in 1972, and there has been little recovery in 1973. The USSR and the PRC not only suspended free market sales in both years but became large-scale buyers.

5. The production setback in Asia had little impact on sugar supplies on the world market because

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